

**SALT LAKE**  
**COMMUNITY ACTION PROGRAM**

**FINANCIAL STATEMENTS**

**JUNE 30, 2006**

## SALT LAKE COMMUNITY ACTION PROGRAM

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A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

6695 South 1300 East  
Salt Lake City, Utah 84121  
Voice: (801) 947-7500 Fax: (801) 947-7609

## INDEPENDENT AUDITORS' REPORT

September 1, 2006

To the Board of Directors and Management of  
Salt Lake Community Action Program

We have audited the accompanying statement of financial position of Salt Lake Community Action Program (a nonprofit organization) as of June 30, 2006 and the related statement of activities and change in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Salt Lake Community Action Program as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2006 on our consideration of Salt Lake Community Action Program's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards on pages 14-15 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Lake, Hill & Myers

SALT LAKE COMMUNITY ACTION PROGRAM

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2006

ASSETS

Current assets:

Cash	\$ 859,820
Restricted cash	420,639
Grants and contracts receivable	1,473,149
Other receivables	25,769
Deposits and prepaid expenses	119,529
Weatherization supplies	<u>81,286</u>

Total current assets 2,980,192

Property and equipment, net 5,351,985

\$8,332,177

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 206,276
Accrued expenses	818,977
Current portion of mortgages payable	<u>82,334</u>

Total current liabilities 1,107,587

Long-term liabilities:

Accrued termination benefits	1,019,864
Mortgages payable, less current portion	<u>2,715,657</u>

Total long-term liabilities 3,735,521

Net assets:

Unrestricted	1,159,063
Temporarily restricted	<u>2,330,006</u>

Total net assets 3,489,069

\$8,332,177

See notes to financial statements.

SALT LAKE COMMUNITY ACTION PROGRAM  
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Government grants	\$ -	\$ 15,514,252	\$15,514,252
Public support	-	659,045	659,045
Program income	290,334	-	290,334
Interest income	-	37,355	37,355
Other income	89,845	-	89,845
Net assets released from restrictions:			
Satisfaction of program restrictions	<u>15,925,597</u>	<u>(15,925,597)</u>	<u>-</u>
Total revenue	<u>16,305,776</u>	<u>285,055</u>	<u>16,590,831</u>
Expenses:			
Head Start	10,662,782	-	10,662,782
Weatherization	1,718,196	-	1,718,196
Community Service	<u>2,883,693</u>	<u>-</u>	<u>2,883,693</u>
Total program services	<u>15,264,671</u>	<u>-</u>	<u>15,264,671</u>
Management and general	881,172	-	881,172
Fundraising	<u>82,456</u>	<u>-</u>	<u>82,456</u>
Total supporting services	<u>963,628</u>	<u>-</u>	<u>963,628</u>
Total expenses	<u>16,228,299</u>	<u>-</u>	<u>16,228,299</u>
Change in net assets	77,477	285,055	362,532
Net assets, June 30, 2005	<u>1,081,586</u>	<u>2,044,951</u>	<u>3,126,537</u>
Net assets, June 30, 2006	<u>\$ 1,159,063</u>	<u>\$ 2,330,006</u>	<u>\$ 3,489,069</u>

See notes to financial statements.

SALT LAKE COMMUNITY ACTION PROGRAM  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2006

	Program Services Expenses			Supporting Services Expenses			Total expenses
	Head Start	Weatherization	Community service	Management and general	Fundraising	Total	
Personnel	\$ 6,634,255	\$ 673,002	\$ 1,267,942	\$ 507,455	\$ 17,195	\$ 524,650	\$ 9,099,849
Fringe benefits	1,973,436	224,700	303,443	117,974	2,402	120,376	2,621,955
Consultants	10,699	110	29,529	109,005	412	109,417	149,755
Travel	71,594	10,211	19,574	13,551	113	13,664	115,043
Vehicle	7,404	41,966	-	-	-	-	49,370
Space	647,292	77,715	138,430	45,186	13,642	58,828	922,265
Copy and printing	95,668	4,755	12,859	12,829	420	13,249	126,531
Supplies and equipment	251,904	587,549	22,634	15,807	13,676	29,483	891,570
Telephone	89,999	6,370	33,448	6,227	139	6,366	136,183
Postage	6,474	367	3,992	11,029	355	11,384	22,217
Direct client assistance	406,292	-	768,713	-	-	-	1,175,005
Insurance	86,802	32,545	8,251	40,287	-	40,287	167,885
Other	124,352	14,726	11,094	-	33,899	33,899	184,071
Delegate subcontracts	-	-	198,435	-	-	-	198,435
Depreciation	256,611	44,180	65,349	1,822	203	2,025	368,165
Total Expenses	\$ 10,662,782	\$ 1,718,196	\$ 2,883,693	\$ 881,172	\$ 82,456	\$ 963,628	\$ 16,228,299

See notes to financial statements.

SALT LAKE COMMUNITY ACTION PROGRAM

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2006

Cash flows from operating activities:	
Cash received from contributions, government, contracts and clients	\$ 16,496,386
Interest received	37,355
Cash paid to vendors and employees	(15,717,663)
Interest paid	<u>(131,841)</u>
Net cash provided by operating activities	<u>684,237</u>
Cash flows from investing activities:	
Purchase of property and equipment	(1,020,828)
Decrease in restricted cash	<u>62,699</u>
Net cash used in investing activities	<u>(958,129)</u>
Cash flows from financing activities:	
Proceeds from borrowings	1,028,795
Principal payments on mortgages	(189,938)
Payments on construction payables	<u>(205,462)</u>
Net cash provided by financing activities	<u>633,395</u>
Net increase in cash	359,503
Cash at beginning of year	<u>500,317</u>
Cash at end of year	<u>\$ 859,820</u>

(continued)

See notes to financial statements.

SALT LAKE COMMUNITY ACTION PROGRAM

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2006

(continued)

Reconciliation of change in net assets to net cash provided by operating activities:	
Change in net assets	\$ 362,532
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	368,165
Change in assets and liabilities:	
Increase in grants receivable	(57,090)
Increase in other receivables	(16,425)
Decrease in deposits and prepaid expenses	15,488
Increase in Weatherization supplies	(12,387)
Increase in accounts payable	73,024
Decrease in accrued expenses	(227,948)
Increase in accrued termination benefits	<u>178,878</u>
Net cash provided by operating activities	<u>\$ 684,237</u>

See notes to financial statements.



## SALT LAKE COMMUNITY ACTION PROGRAM

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

##### Operational Purpose

Salt Lake Community Action Program (SLCAP) is a nonprofit corporation organized under the laws of the State of Utah. The purposes of SLCAP are to establish, operate, and coordinate community action programs in order to prevent and alleviate poverty and its causes, and to cooperate with other organizations, and to secure and expend monies for these purposes. SLCAP operates primarily in Salt Lake and Tooele Counties in Utah.

SLCAP's principal programs comprise the following:

Head Start - The mission of this program is to nurture and educate young children, empower families, and partner with communities through professional and valued staff. The program serves low-income children and families in Salt Lake and Tooele Counties.

Weatherization - A grant program for home repairs, weatherization and rehabilitation to preserve and upgrade the homes of low income persons.

Community Service - This program offers client assistance to the needs of low income persons by providing and assisting with medical, dental, food, and housing needs of affected individuals.

##### Financial Statement Presentation

The accompanying financial statements of SLCAP have been prepared on the accrual method of accounting and accordingly reflect all significant receivables, payables and other liabilities.

SLCAP reports information regarding its financial position and activities according to the following three classes of net assets:

Unrestricted - accounts for unrestricted assets (net of related liabilities) available for support of the organization's operations. Assets designated by the Board of Directors for a specific purpose also are accounted for in this fund.

Temporarily Restricted - accounts for resources currently available for use, but expendable only for purposes specified by the donor.

Permanently Restricted - accounts for gifts requiring in perpetuity that the principal be invested and the income only be used.

### Property and Equipment

Property and equipment are recorded at acquisition cost or, where donated, at estimated market value at the date of the donation. Depreciation is computed using the straight-line method based on estimated useful lives ranging from 3 to 30 years. Expenditures for repairs and maintenance are charged to expense as incurred. Acquisition, use and disposition of certain property and equipment may be subject to certain property management standards as outlined in OMB Circular No. A-110. Therefore, certain property and equipment is included in temporarily restricted net assets in the accompanying financial statements.

### Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents are defined as cash on hand and highly liquid investments with original maturities of three months or less. Restricted cash is not considered a cash equivalent.

### Donated Services

Amounts for donated services are reflected in the financial statements if the services create or enhance nonfinancial assets or if SLCAP would be required to pay for the services if not donated. No amounts have been reflected in the financial statements for donated services. However, many individuals volunteer their time and perform a variety of tasks that assist SLCAP with specific assistance programs, campaign solicitations, and various committee assignments. SLCAP estimates the value of these donated services that are not recorded in the financial statements to be approximately \$3,600,000.

### Contributions

All contributions are available for unrestricted use unless specifically restricted by the donor.

### Nonprofit Status

SLCAP was organized as a nonprofit corporation in accordance with the laws of the State of Utah and is exempt from federal income taxation under provisions of Section 501(c)(3) of the Internal Revenue Code.

### Government Contracts and Grants

SLCAP is generally funded by federal, state, and other grants and contracts. The majority of these grants and contracts operate on a cost reimbursement basis. Generally, accounts receivable and the related revenues are recorded when the applicable expenses to grant awards have been incurred.

Certain grants require that SLCAP match the funds received with other funds in varying percentages. SLCAP may use in-kind contributions such as volunteer labor and space provided in order to meet the matching requirements. Such in-kind contributions are recognized only for regulatory accounting purposes and are not included in the accompanying financial statements.

### Functional Expenses

SLCAP allocates its expenses on a functional basis among its programs and supporting services. Expenses that can be identified with a specific program or supporting service are directly classified to that program or service. Other expenses that are common to several functions are allocated on a reasonable and systematic basis.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### Reclassifications

Certain amounts from the prior year have been reclassified in the current year presentation for financial statement reporting purposes.

### NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE:

Grants and contracts receivable consist of the following at June 30, 2006:

U.S. Department of Health and Human Services	\$ 534,430
Utah Community and Economic Development	607,670
U.S. Department of Agriculture	2,046
U.S. Department of Housing and Urban Development	11,431
U.S. Department of Energy	5,852
Salt Lake County	43,919
Salt Lake City	27,750
Tooele City	11,290
United Way	171,736
Questar	29,058
Rocky Mountain Power	7,763
Salt Lake Community College	11,182
Utah PTA Parent Centers	8,161
Other	<u>861</u>
	<u>\$1,473,149</u>

### NOTE 3 - PROPERTY AND EQUIPMENT:

Property and equipment consists of the following at June 30, 2006:

Land	\$ 851,854
Buildings	5,182,855
Leasehold improvements	357,943
Furniture and equipment	<u>1,576,849</u>
	7,969,501
Less accumulated depreciation	<u>(2,617,516)</u>
	<u>\$ 5,351,985</u>

### NOTE 4 - LEASE COMMITMENTS:

SLCAP currently leases a variety of classrooms, offices, storage units, and food pantries that have long-term and month-to-month lease agreements. At June 30, 2006, the total monthly amount for all of the Organization's leased facilities is \$21,030. During the year ended June 30, 2006, facilities lease expense totaled \$221,439.

Future minimum lease payments for long-term lease commitments are as follows:

#### Year ending June 30,

2007	\$ 37,400
2008	<u>1,500</u>
	<u>\$ 38,900</u>

### NOTE 5 - RETIREMENT PLAN:

SLCAP established a defined contribution retirement plan (the Plan) for the benefit of its employees. The Plan's investments are held in funds managed by Charles Schwab. Under the Plan, SLCAP makes a matching contribution of up to 4 percent of the employee's salary. An employee must meet certain eligibility requirements in order to participate in the Plan. During the year ended June 30, 2006, SLCAP made contributions to the Plan totaling \$238,215.

### NOTE 6 - CONCENTRATIONS:

The majority of SLCAP's support is provided through the Head Start Program from the U.S. Department of Health and Human Services. A loss of this support would have a materially adverse effect on SLCAP.

SLCAP has a concentration of credit risk to the extent cash held in bank accounts exceeds federally insured limits. At June 30, 2006, SLCAP had approximately \$1,078,000 held in bank accounts in excess of federally insured limits. Management does not believe the credit risk associated with this concentration is significant.

#### NOTE 7 - ACCRUED TERMINATION BENEFIT:

SLCAP provides certain benefits to its employees upon termination under a non-qualified plan. These benefits are based on the employee's years of service and the employee's final compensation rate. SLCAP estimates the expense related to this benefit and charges the expense amounts to the related federal or state grants. During the year ended June 30, 2006, \$228,853 was expensed to various federal and state grants and \$49,975 was paid to terminated employees. Accrued termination benefits total \$1,019,864 at June 30, 2006 and this amount is classified as a long-term liability. SLCAP cannot reasonably estimate the amount that may be paid during the next fiscal year, if any.

#### NOTE 8 - MORTGAGES PAYABLE:

Mortgages payable at June 30, 2006 consist of the following:

Mortgage payable, monthly principal and interest payments of \$7,301, interest at 6.75 percent, due August 1, 2030, secured by property.	\$ 996,617
Mortgage payable, monthly principal and interest payments of \$3,148, variable interest ranging from 5.00 percent to 9.75 percent (5.46 percent at June 30, 2006), due February 1, 2022 with a lender's option to call the mortgage due on March 1, 2012, secured by property.	375,744
Mortgage payable, monthly principal and interest payments of \$7,270, interest at 5-year LIBOR plus 2.5 percent (6.74 percent at June 30, 2006) adjusting after five years, due September 1, 2015, secured by property.	846,602
Mortgage payable, monthly principal and interest payments of \$4,892, interest at 7.99 percent, due May 1, 2016, secured by property.	<u>579,028</u>
	2,797,991
Less current portion	<u>(82,334)</u>
	<u>\$2,715,657</u>

Future maturities of mortgages payable are as follows:

Year ending June 30.

2007	\$ 82,334
2008	87,780
2009	94,101
2010	100,888
2011	107,529
Thereafter	<u>2,325,359</u>
	<u>\$2,797,991</u>

During the year ended June 30, 2006, interest expense totaled \$127,040 and capitalized interest totaled \$22,904. In the statement of functional expenses, interest expense is included in the "space" expense classification, which encompasses occupancy related expenditures and costs.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets at June 30, 2006 represent resources currently available for use, but expendable only for the specific purposes as follows:

Property and equipment, net of related mortgages payable	\$ 1,668,487
Weatherization program	19,612
Head Start program	47,900
Community services program	237,091
United Way grant	191,591
Weatherization inventory	81,286
Early childhood services	15,000
Fundraising	<u>69,039</u>
	<u>\$2,330,006</u>

NOTE 10 - RELATED PARTY TRANSACTIONS:

A member of SLCAP's board (who abstained from the vote on the mortgage) is the president and CEO of the lender on one of the mortgages payable. At June 30, 2006, the principal balance on this mortgage totals \$996,617.

## **ADDITIONAL INFORMATION**

**SALT LAKE COMMUNITY ACTION PROGRAM**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2008**

Federal grantor/Pass-through grantor/Program title	Federal CFDA number	Passthrough entity identifying number	Total awards for programs involving passthrough entities	Expenditures
<b>U.S. Department of Agriculture</b>				
Passed through from the State of Utah:				
Child Care Food Program	10.558			\$ 374,384
<b>U.S. Department of Housing and Urban Development</b>				
Direct programs:				
Supportive Housing Program (Note C)	14.235		119,415	71,671
Housing Counseling	14.189	HC05-0898-076		25,000
Passed through from the State of Utah:				
Emergency Shelter Grants	14.231	06-0053		5,000
Housing Opportunities for People with AIDS	14.241	05-2353		13,930
Passed through from Salt Lake County:				
Community Development Block Grant	14.218	BV03104C		30,000
Community Development Block Grant	14.218	BV03106C		25,000
Community Development Block Grant	14.218	BV03105C		29,500
Community Development Block Grant - SL County	14.218	BV03123C		14,000
Community Development Block Grant - Holladay	14.218	BV03123C		10,000
Community Development Block Grant - Murray	14.218	BV03123C		1,000
Community Development Block Grant	14.218			47,308
Emergency Shelter Grants	14.231	BV05502C		19,000
Home	14.239	BV03106C		39,555
Home	14.239	BV04104C		54,227
Passed through from Salt Lake City:				
Community Development Block Grant	14.218			30,000
Community Development Block Grant	14.218			25,000
Community Development Block Grant	14.218			11,000
Community Development Block Grant	14.218	BV03117C		107,400
Community Development Block Grant	14.239			17,604
Home	14.239			8,557
Emergency Shelter Grants	14.231			15,000
Housing Opportunities for People with AIDS	14.241			107,021
Housing Opportunities for People with AIDS	14.241			45,764
Health Department HOPWA	14.241			28,487
Passed through from West Valley City:				
Community Development Block Grant	14.218			4,000
Community Development Block Grant	14.218			31,485
Passed through from West Jordan City:				
Community Development Block Grant	14.218			4,000
Community Development Block Grant	14.218			6,500
Passed through from Sandy City:				
Community Development Block Grant	14.218			4,200
Community Development Block Grant	14.218			3,000
<b>Total Department of Housing and Urban Development</b>				<b>834,209</b>
<b>U.S. Department of Energy</b>				
Passed through from the State of Utah:				
Weatherization*	81.042	05-0593		536,268
<b>Federal Emergency Management Agency</b>				
Emergency Food and Shelter	83.523			115,000
<b>U.S. Department of Health and Human Services</b>				
Direct programs:				
Head Start*	93.600			10,632,044
Passed through from the State of Utah:				
Low Income Home Energy Assistance Program	93.568	06-1172		905,187
Low Income Home Energy Assistance Program	93.568	05-1747		167,313
Low Income Home Energy Assistance Program	93.568	04-1798		26,403
Low Income Home Energy Assistance Program	93.568	05-1355		189,724
Low Income Home Energy Assistance Program	93.568	06-0968		627,246
Community Services Block Grant (Note C)	93.569	06-0895	754,750	637,775
Community Services Block Grant (Note C)	93.569	05-1318	94,523	60,807
Passed through from Salt Lake County:				
HIV Care Formula Grant	93.917			200
<b>Total Department of Health and Human Services</b>				<b>13,246,699</b>
<b>Department of Education</b>				
Passed through from the State of Utah:				
Parent Teacher Association	84.310A			2,000
Parent Teacher Association	84.310A			25,386
<b>Total Department of Education</b>				<b>27,386</b>
<b>Total Federal Assistance</b>				<b>\$ 15,133,946</b>

\* - Denotes a major program.



SALT LAKE COMMUNITY ACTION PROGRAM  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2006

NOTE A - GENERAL:

The schedule of expenditures of federal awards presents the activity of all federal award programs of Salt Lake Community Action Program (SLCAP). The SLCAP reporting entity is defined in Note 1 to the SLCAP's financial statements. All federal financial awards received directly from federal agencies as well as federal financial awards passed through from other government agencies are included on the schedule.

NOTE B - BASIS OF ACCOUNTING:

The accompanying schedule of expenditures of federal awards is presented using grant accounting principles. Certain government and other grants require that an other comprehensive basis of accounting be followed. The differences from accounting principles generally accepted in the United States of America are as follows: acquisition of capital assets are recorded as expenses rather than being capitalized and depreciated, and supporting services are reflected with program expenses rather than reflected separately.

NOTE C - SUB-RECIPIENTS:

Salt Lake Community Action Program provided federal awards to sub-recipients as follows:

<u>Program Title</u>	<u>Federal CFDA number</u>	<u>Pass-through identifying number</u>	<u>Amount provided</u>
Community Services Block Grant	93.569	05-1318	\$ 33,716
Community Services Block Grant	93.569	06-0995	116,975
Supportive Housing Program	14.235	-	<u>47,744</u>
Total federal awards to sub-recipients			<u>\$198,435</u>

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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

September 1, 2006

To the Board of Directors and Management  
of Salt Lake Community Action Program

We have audited the financial statements of Salt Lake Community Action Program as of and for the year ended June 30, 2006, and have issued our report thereon dated September 1, 2006. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Salt Lake Community Action Program's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Salt Lake Community Action Program in a separate letter dated September 1, 2006.

### Compliance

As part of obtaining reasonable assurance about whether Salt Lake Community Action Program's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, board of directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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Salt Lake City, Utah 84121  
Voice: (801) 947-7500 Fax: (801) 947-7609

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

September 1, 2006

To the Board of Directors and Management  
of Salt Lake Community Action Program

### Compliance

We have audited the compliance of Salt Lake Community Action Program (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Salt Lake Community Action Program's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Salt Lake Community Action Program's management. Our responsibility is to express an opinion on Salt Lake Community Action Program's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Salt Lake Community Action Program's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Salt Lake Community Action Program's compliance with those requirements.

In our opinion, Salt Lake Community Action Program complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

### Internal Control Over Compliance

The management of Salt Lake Community Action Program is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Salt Lake Community Action Program's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, board of directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Lake, Hill & Myers*

SALT LAKE COMMUNITY ACTION PROGRAM  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2006

Summary of Auditors' Results

- i. The auditor issued an unqualified opinion on the financial statements of the Organization.
- ii. There are no reportable conditions or material weaknesses in internal control over the financial statements disclosed as a result of the audit of the financial statements.
- iii. The auditor noted no noncompliance which is material to the financial statements of the Organization.
- iv. There are no reportable conditions or material weaknesses in internal control over major programs disclosed as a result of the audit of the financial statements.
- v. The auditor issued an unqualified opinion on compliance with requirements applicable to each major program.
- vi. The auditor identified no findings reported under the caption of Audit Findings.
- vii. Major program consists of:

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
United States Department of Health and Human Services:		
Direct Programs:		
Head Start Program	93.600	\$10,632,044
Passed through from the State of Utah:		
Low Income Home Energy Assistance Program	93.568	\$ 1,915,873
Community Services Block Grant	93.569	\$ 698,582

- viii. The Organization had four Type A programs for the year ended June 30, 2006. The dollar threshold to distinguish Type A and Type B programs was \$454,000. Programs were selected to meet the percentage coverage rule of OMB Circular A-133 paragraph \_\_\_\_\_.520(f).
- ix. The Organization qualifies as a low risk auditee under paragraph .530 of OMB Circular A-133.

Audit Findings

There are no audit findings resulting from the audit.

SALT LAKE COMMUNITY ACTION PROGRAM  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2005

Ref

Finding

There are no prior audit findings.

SALT LAKE COMMUNITY ACTION PROGRAM  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2005

Ref

Corrective Action

There are no corrective action plan comments.

# ► Lake, Hill & Myers

A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

6695 South 1300 East  
Salt Lake City, Utah 84121  
Voice: (801) 947-7500 Fax: (801) 947-7609

September 1, 2006

To the Board of Directors and Management  
of Salt Lake Community Action Program

In planning and performing our audit of the financial statements of Salt Lake Community Action Program for the year ended June 30, 2006, we considered the Organization's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of various matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report, dated September 1, 2006, on the financial statements of Salt Lake Community Action Program.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various Organization personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

## Verification of Participant Income Levels

The current database structure for tracking the income levels of program recipients does not track the family size and income level each time service is rendered. Many of the program recipients have inconsistent employment and family situations that result in varying income and family levels. Due to the fact that certain grants require participants to be qualified based on family size and income levels, we recommend that the related information be tracked each time services are provided.

### Management comment

Effective October 1, 2006, the database has been modified to track family size and income level each time service is provided to a client.

## Cash Disbursement Authorizations

During testing of cash disbursements, we found that rubber signature stamps are being used to authorize payment on many of the checks issued by the Organization. The use of a rubber signature stamp voids the accountability of the person authorizing the check and weakens the Organization's control over cash disbursements. We recommend that where possible these rubber signature stamps not be used. Eliminating the use of signature stamps would further mitigate the risks associated with using the stamps.



#### Management comment

Management is aware of the risks involved in using a signature stamp and has taken precautions in safeguarding their respective signature stamps. Only the applicable authorized signer has custody of their own signature stamp.

#### Weatherization Supplies and Inventory

In our testing of the Weatherization program, we noted several discrepancies in the quantity of inventory on hand when compared to the quantities per the inventory listing provided. The current system of tracking inventory is not properly reconciling actual on-hand inventory to the listing. We recommend that a system be put in place that will properly track the usage and receipt of inventory items. We also recommend that selected monthly inventory counts be performed, such as cycle-counting, and any variations from the actual on-hand quantities be investigated and reconciled. Inventory is an asset that has a high propensity of fraud, and therefore, should be closely safe guarded. Implementing an appropriate inventory control process to verify that the system is properly tracking accurate inventory quantities will help mitigate the risk of misappropriation of assets.

Additionally, in testing the Weatherization inventory, we noted numerous price discrepancies from the inventory listing to copies of the most recent purchase invoices due to the Organization's use of an average cost method to value inventory. We recommend that the inventory system properly track the cost of the supplies purchased and that management consider using a first-in, first-out (FIFO) method of valuing inventory.

#### Management comment

Management has acknowledged a need for tighter controls over the safeguarding of the Weatherization supplies and inventory. Management has changed the locks where inventory is stored to limit access to select individuals. Additionally, the significant inventory discrepancies found in our testing as described above have been investigated and management has verified the proper use of those items. To further improve controls, management will begin to perform monthly counts of material inventory values, and cycle counts of other items and investigate any differences.

We wish to thank the Jean Boyack, CFO, and her entire accounting department for their support and assistance during our audit.

These comments and recommendations are intended solely for the information and use of the Board of Directors, management, and others within the organization and should not be used by anyone other than these specified parties.

*Lake, Hill & Myers*

## ► Lake, Hill & Myers

A PROFESSIONAL CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS

6695 South 1300 East  
Salt Lake City, Utah 84121  
Voice: (801) 947-7500 Fax: (801) 947-7609

September 1, 2006

To the Board of Directors and Management of  
Salt Lake Community Action Program

We have audited the financial statements of Salt Lake Community Action Program for the year ended June 30, 2006 and have issued our report thereon dated September 1, 2006. This letter is issued as required by Statement on Auditing Standards No. 61, "Communications with Audit Committees", which requires the auditor to determine that certain matters related to the conduct of an audit are communicated to those who have responsibility for the oversight of the financial reporting process.

### **Our Responsibility under U.S. Generally Accepted Auditing Standards**

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

In carrying out this responsibility, we assessed the risk that the financial statements may contain a material misstatement, either intentional or unintentional, and designed and conducted our audit to provide reasonable, not absolute, assurance of detecting misstatements that are material to the financial statements. In addition, we considered the internal control structure of the Organization to gain a basic understanding of the accounting system in order to design an effective and efficient audit approach, and not for the purpose of providing assurance on the internal control structure.

### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. The significant accounting policies used by Salt Lake Community Action Program are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2006. We noted no transactions entered into by the Organization during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you of, or transactions for which there is a lack of authoritative guidance or consensus.

### **Management's Judgments and Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's knowledge about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgment. Management allocates certain costs between programs and supporting services on a functional basis based on estimates. Based on our review, management's estimates appear reasonable.

### **Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Organization that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. There were no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Organization's financial reporting process.

We proposed twelve other audit adjustments which made adjustments to the Organization's accounts to reconcile and reclassify accounts for financial reporting purposes. All of these adjustments were recorded.

### **Other Information in Documents Containing Audited Financial Statements**

None.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultation with Other Accountants**

To the best of our knowledge, management has not consulted with or obtained opinions from other independent accountants during the past year that are subject to the requirements of Statement of Auditing Standards No. 50, "Reports on the Application of Accounting Principles."

### **Major Issues Discussed with Management Prior to Retention**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management or other personnel in performing our audit.

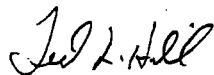
### **Other Management Comments**

We noted a variety of other matters that have been communicated to management in a separate letter dated September 1, 2006.

We wish to thank the Executive Director, Controller and the rest of the staff for their support and assistance in the audit.

This information is intended solely for the use of the board of directors and should not be used for any other purpose. If you have any questions concerning the above items, we would be happy to discuss them with you.

Sincerely,

A handwritten signature in cursive script, appearing to read "Ted L. Hill".

Ted L. Hill